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February 22, 1999

EX PARTE OR LATE FILED

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

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FEB 22 1999

Ex Parte: Access Charge Reform – CC Docket No. 96-262

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Dear Ms. Salas,

On Friday, February 19, 1999, Chuck Schneider, Dennis Weller, Gary Law, Rob Sandhaus and I, representing GTE, met with Jane Jackson, Tamara Preiss, Jay Atkinson, Steve Spaeth, and Florence Grasso, and Ed Krachmer of the Competitive Pricing Division of the Common Carrier Bureau to discuss pricing flexibility for interstate access charges. The attached material was used in the discussion.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

cc: Jane Jackson
Tamara Preiss
Jay Atkinson
Steve Spaeth
Florence Grasso
Ed Krachmer

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Pricing Flexibility

GTE Network Services
Meeting with the FCC Staff
February 19, 1999

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Pricing Flexibility

■ Meeting Purpose

- Need for more efficient access pricing
- Overview of ZonePlus product
- Discuss concerns and possible safeguards

Current Access Pricing Is Inefficient

- Efficient pricing structure should be established regardless of the state of competition.
 - Providing end user benefits
 - Efficient market entry
 - Efficient utilization of scarce economic resources
 - Consistent with the FCC's goals and directions
- Three key areas requiring immediate attention:
 - Price deaveraging
 - Volume and term discount plans
 - New service introduction

Price Deaveraging:

Study Area Averaged Rates Distort Market Decisions

- Rates do not reflect relative costs.
- Inefficient entry in low cost markets
 - Pricing umbrella for competitors to cream-skim
- Preemption of entry in high cost markets
- Distort customer choices among services and technologies
- Embedded system of subsidies penalizes end users in low cost areas to the benefit of end users in high cost areas.

Volume & Term Discount Plans:



Uniform Pricing Does Not Recognize Economic Costs At The Margin

- Customer choices and network utilization are distorted.
 - Usage is repressed.
 - Customer choices that do not best meet their needs.
- Switched access is the only major service without discount plans.
- ILECs unable to respond to competitive initiatives targeted at specific customer segments

New Service Introduction:

Current Process Inhibits Introduction of New Service

- Customers deprived of new service options
 - New access services from GTE
 - New long distance services from IXC's
 - Service arrangements that meet customer needs.
- Inefficient use of network
 - Promote private rather public solutions
 - Distort development of public network
- Speed to market hampered
 - Handicap ILECs
 - Process uncertainties render investment in new services unattractive.

Overview of ZonePlus

- ZonePlus is an example of how more efficient pricing would be achieved.
 - New service introduction
 - New customer service option
 - Similar discount plans adopted in CA and IL
 - GTE petition has been pending before the Commission for more than 3 years.
 - Geographic deaveraging
 - Establishes base rates for 3 density zones for traffic sensitive switched access rate elements

Overview of ZonePlus

- Volume discounts
 - Discounted rates, provided to IXC's, based on MOUs from end user locations exceeding a threshold requirement
 - Allow any IXC, regardless of size, to compete for a given end user.
 - Better linkage between access and IXC calling plans
 - No subscription requirement; automatic discounts

Framework for Efficient Pricing

- Establish rules that allow efficient pricing
- Identify legitimate issues/concerns regarding potential abuses of market power
- Design appropriate measures to prevent such abuses and promote competition
- Establish appropriate triggers for further streamlining in a competitive market

Illustration of Access Pricing Safeguards - Phase 1

■ Possible concerns

- Prices too high
 - For zones
 - For new services
- Prices too low (predation)
 - For new services
- Other concerns?

■ Possible safeguards

- Price caps
 - Sub-indices by zone
 - Cost showing for above band
 - Availability of existing service
 - Cost showing
- Price caps
 - Limit ability to recoup
 - Dynamic lower band
 - No head room created
 - Cost showing